

***United States Court of Appeals
for the Second Circuit***



**BRIEF FOR
APPELLEE**

76-7153

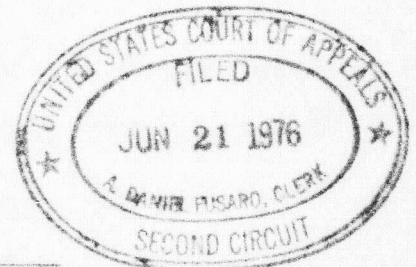
To be argued by:
JACK A. KANZ

United States Court of Appeals
FOR THE SECOND CIRCUIT

REBOUND SYSTEMS, INC.,
Plaintiff-Appellant,
against

MATCHPOINT INDUSTRIES, INC.,
Defendant-Appellee.

On Appeal from the United States District Court
for the Southern District of New York



DEFENDANT-APPELLEE'S BRIEF

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DEFENDANT-APPELLEE'S BRIEF

ISSUES PRESENTED

I. Did the Defendant-Appellee "transact business" within the State of New York pursuant to C.P.L.R. §302(a) 1 by sending a letter into the state and visiting the State of New York on a single occasion at Plaintiff's request?

II. Did the Defendant-Appellee commit a tortious act within the meaning of C.P.L.R. §302(a) 2 or 3 by responding to Plaintiff-Appellant's inquiries about licensing under Defendant-Appellee's patent but refusing to grant a license?

STATEMENT OF CASE

PRELIMINARY STATEMENT

This is an appeal by Plaintiff below, Rebound Systems, Inc. (Rebound), from the decision of the District Court for the Southern District of New York, Griesa, J., granting Defendant's motion to dismiss the complaint for lack of personal jurisdiction over Defendant-Appellee, Matchpoint Industries, Inc. (Matchpoint).

APPELLEE'S STATEMENT OF THE CASE

Since the Appellant's Statement of Case does not fairly present the issues or the facts found by the District Court, it is deemed insufficient. Therefore, the complete facts are set forth below.

Matchpoint is a Texas corporation and maintains its sole place of business in Dallas County, Texas. (19a)¹ Matchpoint is not incorporated or licensed to do business in the Southern District of New York nor in any other district in the State of New York nor any State or district outside of the State of Texas. (19a) It has no office or agent or other representative residing outside the State of Texas. (19a) All its officers, directors and employees reside in Dallas County, Texas.

¹References in parentheses refer to pages in the Appendix.

(19a) Matchpoint has entered into no contracts with residents or other inhabitants in the Southern District of New York nor with any other person, firm or corporation outside the State of Texas. (19a, 20a, 122a)

Matchpoint owns full right and title to United States Letters Patent No. 3,853,222. The main business activity of Matchpoint is the manufacture (through sub-contractors located in Dallas County, Texas) of apparatus for repressurizing opened tennis ball cans as described and claimed in the patent and the sale of the patented apparatus in Dallas County, Texas. (20a)

All the products manufactured by Matchpoint have been sold to Unique Sports Products, Inc., an unrelated company, in Dallas County, Texas. (21a, 120a) The goods manufactured by Matchpoint are shipped directly from the point of manufacture (in Dallas, Texas) to the purchaser (also in Dallas, Texas). Matchpoint has never sold nor shipped any goods outside Dallas County, Texas. (23a, 120a) As found by the District Court (122a) and conceded by Rebound, Matchpoint is not doing business within the State of New York within the meaning of C.P.L.R. §301.

Rebound is a New York corporation presently engaged in the manufacture and marketing of a device that repressurizes opened

tennis ball cans. (57a) At some unknown time in 1974, Rebound decided to copy the product sold by Matchpoint and proposed to distribute its product through another New York corporation, Tensor Corporation. Matchpoint became aware of the proposed activities of Rebound through advertising materials distributed by either Rebound or Tensor Corporation.

By letter dated October 29, 1974, Jack A. Kanz, attorney for Matchpoint, advised Rebound that Matchpoint had discovered advertising material describing the proposed Rebound device. The letter stated that in view of the information on hand at that time, it appeared that the proposed Rebound device "may incorporate the functional design" of the device made by Matchpoint. The letter further advised that claims 1 through 8 in an application for United States Letters Patent owned by Matchpoint covering the invention manufactured by Matchpoint had been allowed by the U. S. Patent Office and that the patent would issue shortly. A copy of the allowed claims was enclosed for review by Rebound. (27a)

At the time the letter was written (and indeed for sometime thereafter) neither Matchpoint's attorney nor any representative of Matchpoint had seen a device manufactured by Rebound. The letter clearly contained no threat of legal action since Matchpoint's patent had not yet issued.

By letter dated October 21, 1974, Matchpoint's attorney sent a similar letter to Tensor Corporation. (26a) Likewise, since the advertised device was not yet on the market, the letter to Tensor Corporation requested an opportunity to inspect the device proposed to be manufactured or sold by Tensor as soon as it became available.

On December 10, 1974 the United States Patent Office issued United States Letters Patent No. 3,853,222 to Matchpoint Industries and on December 16, 1974, Matchpoint's attorney received a response to the letters addressed to Tensor Corporation and Rebound from attorneys representing Rebound. (28a) There followed a brief exchange of correspondence between the attorneys for the parties with regard to the validity of the patent in question. However, at no time was infringement of the patent by the proposed Rebound device ever questioned.

On January 7, 1975, Tensor Corporation advised Rebound that Tensor Corporation would not conclude the proposed distributorship agreement with Rebound and would not become a distributor for the Rebound product unless Rebound could furnish Tensor Corporation with full indemnification in the event of suit for patent infringement. (52a, 123a)

On January 24, 1975, Mr. Jay Monroe, President of Tensor Corporation, called the attorney for Matchpoint Industries and inquired about becoming a distributor for the Matchpoint product. (24a,

53a, 123a) Mr. Monroe was referred to Mr. David H. Kennington, Vice President of Matchpoint. Mr. Kennington agreed to meet with Mr. Monroe to discuss possible distribution of the Matchpoint device by Tensor Corporation. The meeting between Mr. Monroe and Mr. Kennington took place in Brooklyn, New York on January 30, 1975. No threats of litigation were made or discussed presumably since Tensor Corporation had previously decided against distributing the Rebound device. (24a) The meeting lasted no more than two and one-half hours. No agreement was reached and there has been no further communication between Tensor Corporation and Matchpoint. (24a, 56a)

In January of 1975, Mr. Bernard J. Jacobson, Vice President of Rebound, called Mr. John Helms, President of Matchpoint, in Dallas and requested that Matchpoint representatives meet with Rebound representatives for the purpose of discussing a license under the Matchpoint patent. (67a, 68a, 124a)

Prior to the telephone calls to Matchpoint from Rebound and Tensor Corporation (both originated by Rebound and Tensor for the purpose of seeking distribution rights or licenses under the Matchpoint patent), the only contact between Matchpoint and Tensor or Rebound had been the letters dated October 21 and October 29, 1974, respectively.

Following Mr. Jacobson's discussion with Mr. Helms, Mr. Jacobson made arrangements to visit Matchpoint in Dallas to discuss a license under the Matchpoint patent. (68a) On January 27, 1975, Mr. Kennington advised Mr. Jacobson that Mr. Kennington would be visiting New York on unrelated business and suggested that the proposed meeting take place during his visit to New York. Mr. Jacobson agreed and the meeting took place on January 30, 1975 at the Harvard Club in New York City. (68a, 25a) At the meeting, Mr. Jacobson repeated his interest in making or selling a pressurization device under the Matchpoint patent and Mr. Kennington invited Mr. Jacobson to present a specific proposal. Litigation, however, was never discussed. (25a) Subsequent to the meeting of January 30, 1975 and prior to May 15, 1975, there were several exploratory telephone conversations between Mr. Kennington in Texas and Mr. Jacobson in New York concerning Rebound's desire to make and sell its device under the Matchpoint patent. These discussions were terminated on May 29, 1975 when Mr. Kennington advised Mr. Jacobson that Matchpoint had decided not to grant a license under the Matchpoint patent. (39a)

Unknown to Matchpoint, Rebound had initiated legal action by filing its complaint on May 15, 1975, even before attempts to negotiate a license had been terminated.

As its alleged cause of action, Rebound sought a declaratory judgment that Matchpoint's patent was invalid, not infringed, and not enforceable. (3a-10a) As a second alleged cause of action, Rebound alleged that Matchpoint had engaged in unfair competition by threatening Rebound and its potential distributor, Tensor Corporation, with litigation and that Matchpoint had attempted to destroy Rebound's relationship with Tensor Corporation. (12a-13a)

Matchpoint moved pursuant to Federal Rules of Civil Procedure 12(b)(2) and (3) to dismiss the complaint for lack of personal jurisdiction over Matchpoint and that venue was improper in the Southern District of New York. (15a-17a) In the alternative, Matchpoint moved to transfer under 28 U.S.C. 1406 or 1404(a). (16a-17a) The motion was fully briefed and, on February 10, 1976, the testimony of Mr. Kennington was taken before Judge Griesa on the sole issue of whether Unique Sports Incorporated, Matchpoint's sole customer, was Matchpoint's agent in New York. (75a).

On February 25, 1976, Judge Griesa handed down his opinion and order dismissing the action for lack of personal jurisdiction over Matchpoint and declining to rule on the other aspects of the motion. (119a-127a)

ARGUMENT

The District Court properly concluded that Matchpoint was not doing business in New York within the meaning of C.P.L.R. §301 and that Unique Sports Incorporated was not Matchpoint's agent. These holdings are not contested on this appeal. The Court further properly concluded that Matchpoint had not transacted business in New York within the meaning of C.P.L.R. §302(a)1 and that there was no basis shown for claiming that Matchpoint had committed a tort in New York within the meaning of C.P.L.R. §302(a)2. The appeal is addressed to these holdings.

Appellant further asserts that Matchpoint's responses to Rebound's overtures toward obtaining a license under Matchpoint's patent were sufficient to subject Matchpoint to jurisdiction under C.P.L.R. §302(a)2 and 3.

I. Matchpoint Has Not Transacted Any Business
In The State Of New York Within The Meaning
Of C. P. L. R. §302(a)1

New York's C.P.L.R. §302 provides:

"§302. Personal jurisdiction by acts of non-domiciliaries.

(a) Acts which are the basis of jurisdiction. As to a cause of action arising from any of the acts enumerated in this section, a court may exercise personal jurisdiction over any non-domiciliary, or his executor or administrator, who in person or through an agent:

1. transacts any business within the state; or
. . . ."

This section is, of course, New York's response to the doctrine of "minimum contacts" enunciated by the Supreme Court in International Shoe Co. v. Washington, 326 U.S. 310 (1945). Due process, said the Court in International Shoe, requires that in order to be subject to the jurisdiction of a state, a non-domiciliary must have had sufficient contacts "such that the maintenance of the suit does not offend traditional notions of fair play and substantial justice." (at p. 316). Matchpoint has had no such minimum contacts with New York. To subject it to New York's jurisdiction under the facts of this case would surely offend said traditional notions.

As indicated above, Matchpoint only initiated two contacts with the State of New York. These are the letters of Matchpoint's attorney dated October 21, 1974 and October 29, 1974 mailed from

Dallas to New York. All other contacts were initiated by Rebound and Tensor Corporation.

The two letters are clearly advisory in nature and cannot in any way be construed as a threat of litigation. The letters merely advise the recipients that Matchpoint would, in the near future, have a patent covering Matchpoint's product. The letters further requested an opportunity to inspect the proposed Rebound product when it became available on the market. Since the patent had not issued and the proposed Rebound device was not yet on the market, the clear intent of the letters was to assist the recipients (Rebound and Tensor Corporation) in avoiding innocent infringement. Since the Rebound product was not yet on the market, neither Matchpoint nor its attorney could have inspected the Rebound device. Without inspection it would have been impossible to determine if the patent would be infringed. Obviously the letters could not and did not contain any allegation of infringement or threat of litigation.

In response to the letters, Rebound and Tensor Corporation both made independent overtures to Matchpoint to obtain distribution rights or licenses under the patent. In response to those overtures, Mr. Kennington, while in New York on other totally unrelated business,

met with both Rebound and Tensor Corporation. The meeting with Tensor was immediately fruitless and no further contact was made. However, discussions with Rebound continued intermittently by telephone and occasional letters until May 30, 1975. These discussions ultimately proved fruitless when Matchpoint decided it would not grant a license. Anticipating Matchpoint's decision, Rebound filed suit on May 15, 1975 in New York, asserting the contacts initiated by Rebound as the basis for jurisdiction over Matchpoint.

In McKee Electric Co. v. Rauland-Borg Corp., 20 N.Y. 2d 377, 283 N.Y.S. 2d 34, 229 N.E. 2d 604 (1967), the New York State Court of Appeals held that there was no jurisdiction in a case parallel to the case at bar. However, in McKee the defendant had substantially more contacts on which jurisdiction might have been based. The defendant in McKee manufactured goods outside the state and sold them in New York via a number of distributors. There, as here, it was the plaintiff who initiated the request to do business. As a result the plaintiff became one of the defendant's distributors. When questions arose regarding the nature of the parties' contract, the questions were resolved by mail between the defendant in Chicago and the plaintiff in New York.

On one occasion the defendant's representative was in New York on other business and visited the plaintiff's place of business for approximately two hours. Thus, in McKee the defendant's contacts with the state were directly analogous to Matchpoint's contacts with the state in the case at bar: an incidental visit by one of its representatives to the state and subsequent telephone conversations between the parties. In addition, however, the defendant in McKee had sold products in the State of New York and had entered into a contract with the plaintiff. In contrast, Matchpoint sells no products in this state and has no contract with Rebound or any other New York resident.

The New York Court of Appeals in McKee found no jurisdiction. The court reasoned that public policy mandated against subjecting a foreign corporation to New York jurisdiction when its representatives had only visited the state incidentally, stating:

"Otherwise every corporation whose officers or sales personnel happen to pass the time of day with a New York customer in New York runs the risk of being subjected to the personal jurisdiction of our courts."
(at p. 382)

Clearly, Matchpoint's contacts are less than those of the defendant in McKee. Therefore, the holding of the New York Court of Appeals dictates against finding that Matchpoint has transacted business in this state.

Similarly, in Amins v. Life Support Medical Equipment Corp., 373 F. Supp. 654 (SDNY 1974), the court held that "isolated visits to New York" on the part of the defendant's representative during which they had contact with the plaintiff were not sufficient to constitute the transaction of business. (at p. 656) See also Lumbermans Mutual Casualty Co. v. Borden Co., Inc., 265 F. Supp. 99 (SDNY 1967); Green and White Construction Co. v. Columbus Asphalt Corp., 293 F. Supp. 279 (SDNY 1969); Total Sound, Inc. v. Universal Records Distributing Corp., 286 F. Supp. 123 (SDNY 1968); and Impex Metals Corp. v. Orement Chemical Corp., 333 F. Supp. 771 (SDNY 1971).

Since the only activities of Matchpoint within the State of New York were responses to overtures by Rebound to negotiate a license under Matchpoint's patent, and all the contacts of Matchpoint with New York were initiated by Rebound or Tensor Corporation, it is submitted that to subject Matchpoint to personal jurisdiction in New York clearly offends the traditional notions of fair play and substantial justice. To hold otherwise would permit any resident of New York to invite an unsuspecting non-domiciliary to New York on any pretext and then institute a suit in New York against the non-domiciliary which could not have been maintained there otherwise.

No court has ever gone so far. On the contrary, controlling authority has clearly held that to maintain jurisdiction under C.P.L.R. 302(a)1 the plaintiff must show that the defendant transacted business in New York and that the cause of action arises from the business transacted. Fontanetta v. American Board of Internal Medicine, 421 F. 2d 355 (2d Cir. 1971); Frummer v. Hilton Hotels International, Inc., 19 N.Y. 2d 811, cert. denied, 389 U.S. 923, 88 S. Ct. 241, 19 L. Ed. 2d 266 (1967).

Stripped of the embellishments and innuendos attached by Rebound, Rebound's basic complaint is that Matchpoint came to New York to talk but refused to grant a license under its patent. Does refusing to do business constitute transacting business under C.P.L.R. 302(a)1? The New York State Court of Appeals answered this decision in the negative in McKee, supra, stating that the defendant must commit "some act by which the defendant purposefully avails itself of the privilege of conducting activities within the forum state, thus invoking the benefits and protections of its laws." citing Hanson v. Denckla, 357 U.S. 253, 78 S. Ct. 1240.

Clearly Matchpoint committed no act by which it availed itself of the privilege of conducting activities in New York. Therefore, it

never sought to invoke the benefits or protections of New York law and is not subject to personal jurisdiction under C.P.L.R. 302(a)1.

Rebound erroneously relies on ECC Corporation v. Slater Electric Inc., 171 U.S.P.Q. 119, 336 F. Supp. 148 (EDNY 1971) as a case presenting similar facts. A careful review of ECC Corporation, however, reveals that the facts are clearly distinguishable and the decision therein consistent with the legal proposition advanced by Matchpoint. In ECC Corporation one defendant, Lucerne, moved to dismiss under Rule 12(b) for lack of personal jurisdiction. The Court, in denying the motion, found that although Lucerne did none of the usual things on which a finding of "doing business" in New York could be based, it was subject to personal jurisdiction in New York because it had negotiated a contract in New York with Slater. Although this contract was negotiated in one relatively short meeting, the contract itself was alleged to be in violation of the anti-trust laws and was the matter in controversy. Therefore, the contract itself gave rise to the cause of action asserted by ECC Corporation. The Court thus found that the case for jurisdiction under C.P.L.R. 302(a)1 under these facts, "while marginal, is adequate."

The case at bar is clearly distinguishable. Matchpoint did not enter into any contract. In fact, it committed no act in New York which gives rise to the cause of action alleged.

Rebound similarly cites Hi Fashion Wigs, Inc. v. Peter Hammond Advertising, Inc., 32 N. Y. 2d 583, 347 N. Y. S. 2d 47, 300 N. E. 2d 421 (1973) as support for its contention. However, Rebound's reliance on Hi Fashion Wigs is also misplaced. This case involved a motion to dismiss for lack of personal jurisdiction over one Schuminsky, a counterclaim defendant. Schuminsky, a resident of Oklahoma and President of the plaintiff corporation, had executed a guarantee on the debt of the plaintiff corporation in New York. Thus when Hammond counterclaimed against the plaintiff on the debt of the plaintiff, Schuminsky was served as a counterclaim defendant. Schuminsky's main contact with New York was his personal delivery of the guarantee in New York. On the counterclaim the debt and the personal guarantee of Schuminsky were the heart of the controversy. In denying Schuminsky's motion to dismiss for lack of personal jurisdiction, the New York Court of Appeals stated:

"So essential was his delivery of the guarantee to its validity and existence as a contract that Schuminsky must be deemed to have 'purposefully' availed himself

of the privilege of conducting activities within [this] State, thereby 'invoking the benefits and protection of its laws' (Hanson v. Denckla, 357 U.S. 235, 253, 78 S. Ct. 1228, 1240, 2 L. Ed. 2d 1283)."

In the case at bar, the District Court carefully reviewed the evidence submitted by way of affidavit and testimony and concluded that :

"The contacts of Matchpoint with New York, involving preliminary and inconclusive discussions of possible business arrangements and the assertion of Matchpoint's legal rights in its patent, are not sufficient to constitute the transacting of business within the meaning of C.P.L.R. §302(a)(1). See Lehigh Valley Indus., Inc. v. Lehigh Colonial Corp., _____ F.2d _____, Docket No. 75-7301 (2d Cir. November 28, 1975) slip op. 367; Chemical Bank v. World Hockey Ass'n, 403 F. Supp. 1374, 1378-79 (S.D.N.Y. 1975); McKee Elec. Co. v. Rauland-Borg Corp., 20 N.Y. 2d 377, 382, 283 N.Y.S.2d 34, 37-38, 229 N.E.2d 604, 607 (1967)." (124a-125a)

Appellant, failing to find New York authority to support its position, attacks this holding as inconsistent with the Eighth Circuit's treatment of the Minnesota long arm statute in B & J Manufacturing Co. v. Solar Industries, 483 F.2d 594 (8th Cir. 1973). It should

first be noted that the Minnesota long arm statute² is not fully analogous with the New York long arm statute.

In construing the Minnesota long arm statute the Eighth Circuit noted that personal jurisdiction of a non-resident patent owner could be sustained under Subdivision 1(a) on the theory that the threat of enforcement of United States Patent against a Minnesota resident was use of personal property (the patent) within Minnesota. See Imperial Products, Inc. v. Zuro, 176 U.S.P.Q. 172 (D. Minn. 1971), not otherwise reported. However, in deciding B & J Manufacturing Co. the court relied on Subdivision 1(b), stating that the defendant had transacted business in Minnesota and therefore was subject to personal jurisdiction under Subdivision 1(b). The court based its decision on the finding that the defendant was:

² Minnesota Statutes Annotated §543.19 Subdivision 1, states in part:

"As to a cause of action arising from any acts enumerated in this subdivision, a court . . . may exercise personal jurisdiction over any foreign corporation . . . if the foreign corporation . . . :

- (a) Owns, uses or possesses any real or personal property situated in this state, or
- (b) Transacts any business within the state."

"no stranger to Minnesota, and that it had a number of related contacts in the forum. The defendant advertised its products in national publications which were distributed in Minnesota, and it sold a number of its other products to independent distributors located in the state. It maintained 'trouble shooters' who were available to visit the state when necessary to aid users of the firm's products, and the firm also repaired its products, though these had to be shipped to the firm's Illinois office for such service."

The court further found that the defendant had voluntarily entered into a number of other business transactions, including the acquisition of the patent and attempts at enforcement, which it knew had consequences in the state. In addition, the defendant sent a letter into Minnesota specifically threatening suit against the plaintiff. In view of all of the related contacts of the defendant with the State of Minnesota, the court properly concluded that the defendant had transacted business in the State of Minnesota within the purview of Subdivision 1(b).

It should be noted, however, that personal jurisdiction was based on M. S. A. §543.19, Subdivision 1(b), the court being "convinced the plaintiff's cause of action arose from the defendant's transaction of business in Minnesota."

M. S. A. §543.19, Subdivision 1(b), however, is analagous to New York's C. P. L. R. 301 ("doing business") which Rebound concedes is inapplicable under the facts of the present case.

In the case at bar, the District Court properly distinguished B & J Manufacturing Co. and cited a later case construing the same Minnesota statute. In Rheem Mfg. Co. v. Johnson Heater Corp., 370 F. Supp. 806 (D. Minn. 1974) the court rejected long arm jurisdiction under the same Minnesota long arm statute as in violation of due process where the contacts with the foreign state were not substantial and where jurisdiction was alleged solely on the basis of a letter informing plaintiff of certain patent rights.

In the Rheem case, as in the case at bar, the defendants had merely sent a letter into the state to inform the plaintiff, Rheem, of defendant's patent in an effort to prevent possible innocent infringement. The letter in Rheem, as in the letter here, contained neither allegation of infringement nor threat of enforcement. The Minnesota court concluded that such a letter, even considered with other remote contacts, did not constitute transacting any business in the State of Minnesota. The activities of the defendant in Rheem almost exactly parallel the activities of Matchpoint.

In an attempt to bring the inconsequential contact of Matchpoint with the State of New York within the purview of C. P. L. R. 302(a)1, Rebound attempts to characterize its own abortive attempt

to induce Matchpoint to grant Rebound a license as a conspiratorial effort by Matchpoint to prevent Rebound from entering the market. The facts simply will not support this contention. All Matchpoint's contacts with this state, save the initial letters of inquiry, were initiated by Rebound or Tensor Corporation. In fact, the only reason Matchpoint had any contact at all with this state was for the convenience of Rebound. This contact, however, was nothing more than a brief fruitless meeting and subsequent telephone conversations in which Rebound, not Matchpoint, was attempting to arrange a business relationship. Matchpoint simply listened and declined to do business with Rebound. Clearly, in none of the casual contacts of Matchpoint with the State of New York did Matchpoint invoke the benefits or protection of the laws of New York.

In the recent case of Chemical Bank v. World Hockey Association, 403 F. Supp. 1374 (SDNY 1975), the court, in again rejecting long arm jurisdiction under C.P.L.R. §302(a)1, restated the proposition that in order to sustain jurisdiction under this section, the plaintiff must show that the defendant transacted business in New York and that the cause of action arises from the business thus transacted.

In Sterling National Bank & Trust of New York v. Fidelity Mortgage Investors, 510 F. 2d 870, 873 (2nd Cir. 1975) this very

court provided applicable guidance, stating that the proper enquiry is whether "purposeful acts have been performed in New York by the foreign corporation in relation to the contract." These acts may not be casual inconsequential acts such as the fruitless discussions in the case at bar, but must be of sufficient substance to indicate that the defendant has availed himself of the privilege of conducting business activities within the state, thus invoking the benefit and protection of New York law. Chemical Bank, supra, Liquid Carriers Corporation v. American Marine Corporation, 375 F. 2d 951 (2nd Cir. 1967), Longines-Wittnauer Watch Co. v. Barnes Reinecke, Inc., 15 N. Y. 2d 443, 458; 261 N. Y. S. 2d 8, 19; 209 N. E. 2d 68, 75; cert. denied, 382 U. S. 915, 86 S. Ct. 241, 15 L. Ed. 2d 158 (1965).

In Chemical Bank the court noted that plaintiff relied on negotiations between plaintiff and defendant which admittedly took place in New York, but which did not mature into a contract. The court clearly refused to sustain jurisdiction based on those contacts because the discussions were merely

"casual and insubstantial. There were no formal negotiations or any contract terms. In fact, the results of those discussions were negative."

This description fully applies to the abortive attempts by Rebound to negotiate a license under the Matchpoint patent.

The court in Chemical Bank further stated:

"I am aware of no case which has sustained jurisdiction under 302(a)(1) where the non-resident defendant's presence in New York relates solely to conversations which are not part of the negotiations leading to the contract in question."

Appellee submits the same position. Since the casual contacts of Matchpoint are insubstantial and did not lead to any business activity, Matchpoint has not transacted business within the State of New York within the meaning of C. P. L. R. 302(a)1.

II. Matchpoint Has Committed No Tortious Act
Upon Which Jurisdiction Can Be Based Under
C.P.L.R. §302(a)2 or C.P.L.R. §302(a)3

Rebound predicates its entire basis for jurisdiction under C.P.L.R. §302(a)2 and 3 on the bald assertion that Matchpoint unlawfully attempted to enforce an invalid patent knowing that the patent was invalid. This bald assertion is wholly unsupported and, as is shown from the record, patently untrue.

Matchpoint's patent issued on December 10, 1974 and has never been contested. Title 35, United States Code, §282 states in part:

"A patent shall be presumed valid. The burden of establishing invalidity shall rest on a party asserting it."

Furthermore, prior to filing of this action, Matchpoint had never inspected a device made by Rebound, thus could not have known if the patent was infringed by the Rebound device. Absent such knowledge, no charge of patent infringement could be made. Nowhere does the record show that Matchpoint charged Rebound with infringement. Instead, it appears that Rebound, who had exclusive knowledge of the form of its proposed device, knew their device infringed the patent and

actively sought a license or other means to escape liability for its infringement. The foregoing facts alone are sufficient for the District Court to have found "no basis for holding that [Matchpoint] committed a tortious act . . ." (126a)

Rebound further asserts that Matchpoint embarked on a course of conduct which caused Rebound's proposed distributor to refuse to handle the Rebound device, thereby damaging Rebound. Again, the record squarely defeats Rebound's contention.

In the affidavit (filed by Rebound) of Jay Monroe, President of Tensor Corporation, Mr. Monroe states:

"[O]n January 7, 1975, at a meeting with the principals of Rebound Systems, Inc., I advised them that Tensor Corporation would not conclude a distributorship agreement with Rebound Systems, Inc. and would not become a distributor for the Rebound product . . ." (52a)

Note that on January 7, 1975 Matchpoint had made no contact whatsoever with Rebound or Tensor Corporation except the advisory letters of October 21, 1974 and October 29, 1974. Nevertheless, Rebound asserts that because of an alleged wilful course of tortious conduct, Rebound lost its distributor, while the record clearly shows that the proposed distributor had withdrawn before any of the conduct of which Rebound complains.

Rebound apparently misconstrues the District Court's opinion as requiring Rebound to prove a prima facie case of tortious conduct. A careful review of the opinion, however, will not support this construction. Judge Griesa stated:

"Plaintiff has the burden on this motion of making a prima facie showing of the tortious act relied upon. Socialist Workers Party v. Attorney General, 375 F. Supp. 318, 322 (S.D.N.Y. 1974); see Lehigh Valley Indus., supra at 824." (126a)

As stated in Socialist Workers Party, it is not necessary on a jurisdictional motion for the plaintiff to finally prove the tortious act in question. However, in order to establish "threshold jurisdiction", the plaintiff must establish "prima facie" the relevant facts under C.P.L.R. §302. United States v. Montreal Trust Co., 358 F. 2d 239 (2nd Cir. 1966), cert. denied, 384 U.S. 919, 86 S. Ct. 1366, 16 L. Ed. 2d 440 (1966).

In view of the above, it is clear that the District Court properly concluded that no construction of the facts could support a showing of tortious conduct on the part of Matchpoint. Thus Rebound failed to establish prima facie the relevant facts to support threshold jurisdiction under C.P.L.R. §302(a)2 or 3.

Rebound's allegations of unfair competition are all conclusory in nature. It is very unclear which specific acts of Matchpoint Rebound complains of as tortious acts which occurred in New York to support jurisdiction under C.P.L.R. §302(a)2. It seems absurd to assert that a threat to sue Rebound, even if such threats had been made, could constitute a tort. In fact, Rebound does not clearly make such an allegation. It insists, however, that Matchpoint intimidated Rebound's proposed customers.

The only contact with Rebound's proposed customer was the advisory letter to Tensor Corporation and one visit with Tensor's President. The advisory letter is clearly not a threat as pointed out above. Furthermore, as also pointed out above, Tensor Corporation voluntarily withdrew from any arrangement with Rebound before any further contact with Matchpoint. Obviously Tensor Corporation's withdrawal from its tentative arrangement with Rebound cannot have been caused by any tortious act by Matchpoint, since this withdrawal was effected prior to any contact with Matchpoint.

Under careful scrutiny, it appears that Rebound has, by simply relabeling its first alleged cause of act as "unfair competition", attempted to defeat the "minimum contacts" requirements of International Shoe, supra, and take advantage of the jurisdiction requirement of C.P.L.R. §302(a)2.

The Court's attention is called to the case of Stanat Manufacturing Co., Inc. v. Imperial Metal Finishing Co., Inc., 325 F. Supp. 794 (EDNY 1971), a case whose reasoning applies even if the facts are not directly analogous (There, the defendant's representative had not come into New York). In Stanat, the plaintiff chose to cast his claim for breach of contract as a tort by alleging fraud and thus take advantage of the 302(a)2 "tortious act" jurisdiction. This is strikingly similar to Rebound's recasting of its declaratory judgment action as "unfair competition." The Court rejected this attempt to circumvent the intent of the section, stating (at p. 795-8):

"This action sounds in contract. Permitting plaintiff to convert the case into a tort action for jurisdictional purposes would frustrate the design of Section 302 which differentiates between tort and other actions. Compare CPLR 302(a)(2)(3) with CPLR 302(a)(1)(4).

Forms of action and procedural distinctions based upon them have much less importance than they once did. Nevertheless, where a statute distinguishes between tort and contract theories and substantial consequences flow from characterization of a case as one or the other, the courts have no right to treat the terms interchangeably.

If a plaintiff could merely by alleging that a contracting party never intended to fulfill his promise, create a tortious action in fraud, there would be no effective way of preventing almost every contract case from being converted to a tort for jurisdictional purposes."

The Court further reasoned (at p. 796):

"Accepting plaintiff's theory would have the effect of an unwarranted and unintended extension of "long-arm" jurisdiction to almost any contract action where plaintiff was a New York domiciliary. Whether or not the reach would be unconstitutional, it would be contrary to legislative design as revealed in CPLR 302."

Under analogous rationale, Rebound's contention of tortious act jurisdiction must fail. Furthermore, the distinction between the patent infringement claim and the tort claim is critical in the case at bar since absent jurisdiction over the patent infringement claim (based on C.P.L.R. §302(a)1), the Federal Court is lacking in subject matter jurisdiction over the tort claim. 28 U.S.C. §1338(b). To sustain personal jurisdiction under "tortious act" jurisdiction and not §302(a)1 would permit Rebound to bootstrap personal jurisdiction to the patent claim.

Rebound's assertion of jurisdiction under C.P.L.R. §302(a)3 is even less credible. Section 302(a)3 initially requires that there must be tortious activity outside the State of New York which results in injury to "person or property within the state." This very court has squarely held that the injury must be direct and not remote or consequential.

Lehigh Valley Industries, Inc. v. Birenbaum, _____ F. 2d _____,

Docket No. 75-7301 (2nd Cir. Nov. 28, 1975) Slip op. 367.

This same court has also held that C.P.L.R. §302(a)3 does not confer jurisdiction merely because the alleged loss of profits occurs in New York only because the plaintiff is domiciled or doing business here. American Eutectic Welding Alloys Sales Co. v. Dytron Alloys Corp., 439 F. 2d 428, 433 (2d Cir. 1971).

Rebound does not even allege any act outside the State of New York which caused injury to Rebound. Furthermore, Rebound does not remotely allege that Matchpoint

"Regularly does or solicits business, or engages in any other persistent course of conduct, or derives substantial revenues from goods used or consumed or services rendered, in the state"

as required by C.P.L.R. §302(a) 3(i).

In Chemical Bank, supra, the court noted:

"The courts have had some difficulty in applying C.P.L.R. §302(a)(3)(ii) to non-physical commercial injuries. However, the cases which have dealt with the problem appear to have laid down the following basic rules. First, the residence or principal place of business of the plaintiff will not necessarily be deemed to be the place of the 'injury' - i.e., the injury will not necessarily be considered to take place at the residence or principal place of business of the plaintiff simply because the plaintiff experiences an economic effect of the wrongful activity at that place. Second, in a commercial tort situation the place of the injury will usually be deemed to be the place where 'the critical events associated with the dispute took place'. See American Eutectic, supra at 433-35, citing with approval Spectacular

Promotions, Inc. v. Radio Station WING, 272 F. Supp.
734, 737 (E.D.N.Y. 1967)."

Accordingly, the bare allegation that Rebound lost sales cannot support jurisdiction in New York under C.P.L.R. §302(a)3.

Appellant has failed to cite a single case where jurisdiction over a non-resident corporation has been sustained under C.P.L.R. §302(a)3 merely because its products are ultimately sold in New York. It is submitted that no such authority is cited simply because none exists. Furthermore, since the affidavit filed by Appellant clearly shows that no activity complained of could remotely be construed as tortious, Appellant has negated its own contention. Accordingly, no construction of the facts could support jurisdiction over Matchpoint under C.P.L.R. §302(a)2 or C.P.L.R. §302(a)3.

CONCLUSION

FOR THE REASONS GIVEN ABOVE THE ORDER
DISMISSING THE COMPLAINT SHOULD BE AFFIRMED.

Respectfully submitted,

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